

City of Norton Shores

Financial Statements and Supplemental Material

Year Ended June 30, 2008

**CITY OF NORTON SHORES
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2008**

**Prepared by
Finance Department**

**Michael D. Huston
Finance Director**

**Tina C. Ericksen
Treasurer**

Comprehensive Annual Financial Report City of Norton Shores

June 30, 2008

Contents

I. INTRODUCTORY SECTION

Title Page	1
Table of Contents	2-3

II. FINANCIAL SECTION

Independent Auditors' Report	5-7
------------------------------	-----

Management's Discussion and Analysis	9-18
--------------------------------------	------

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets	20-21
Statement of Activities	22-23

Fund Financial Statements:

Balance Sheet - Governmental Funds	24-25
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	26-27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Net Assets - Proprietary Funds	29-30
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	32
Statement of Fiduciary Net Assets - Fiduciary Funds	33

Notes to Financial Statements	34-59
-------------------------------	-------

Comprehensive Annual Financial Report City of Norton Shores

June 30, 2008

Contents

III. FINANCIAL SECTION - continued

Required Supplemental Material

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Governmental Funds	62-63
--	-------

Required Supplementary Information for Pension Plans - GASB 50	65
---	----

Combining Funds Statements and Schedules

Combining Balance Sheet - Non-Major Governmental Funds	66-67
--	-------

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	68-69
--	-------

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Non-Major Governmental Funds	70-75
--	-------

Balance Sheet - Internal Service Fund - Equipment Revolving Fund	76
---	----

Statement of Revenues, Expenses and Changes in Net Assets - Internal Service Fund - Equipment Revolving Fund	77
--	----

Statement of Cash Flows - Internal Service Fund - Equipment Revolving Fund	78
---	----

Balance Sheet - Agency Funds - Trust and Agency	79
---	----

Combining Statement of Changes in Assets and Liabilities - Agency Funds	80-81
--	-------

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Norton Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Norton Shores' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton Shores, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress on pages 9 through 18 and pages 62 through 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norton Shores' basic financial statements. The combining funds statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining funds statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Prudna L. L. C.

Muskegon, Michigan
October 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Norton Shores, Michigan, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the City of Norton Shores for the fiscal year ended June 30, 2008. Please read this narrative in conjunction with the review of our financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City of Norton Shores exceeded its liabilities at the close of the fiscal year by \$65,452,826 (net assets), compared to \$65,552,673 at June 30, 2007. Of this amount, \$18,559,575 (unrestricted or undesignated net assets) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets decreased by \$99,847.
- As of the close of its current fiscal year, the City of Norton Shores' governmental funds reported a combined ending net assets of \$22,924,121, a decrease of \$142,983 in comparison with the preceding fiscal year. Approximately 35% or \$7,942,488 is available for spending at the City's discretion (undesignated net assets).
- At the end of the current fiscal year, the undesignated fund balance for the general fund was \$1,391,582, or 16% of total general fund expenditures.
- The City of Norton Shores total debt decreased by \$942,398, or 7%, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Norton Shores' basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The "government-wide financial statements" are designed to provide readers with a broad overview of the City of Norton Shores' finances in a manner similar to a private-sector business. These statements are presented on the full accrual basis of accounting, which when viewed from the economic resources management focus can be used to determine whether the City has improved or deteriorating finances.

The "statement of net assets" presents information on all of the City of Norton Shores' assets and liabilities, with the difference between the two being reported as "net assets". Over the years, increases or decreases in net assets may serve as one indicator of the change in the financial condition of the City.

The "statement of activities" presents how the net assets changed during the period just ended. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Example of timing differences is uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City of Norton Shores that are primarily supported by tax and intergovernmental pass through revenues (*governmental activities*) from other functions that were created and intended to recover most or all of their costs through user fees and charges for services (*business-type activities*). The governmental activities include legislative, general city government, public safety, highways and streets, community development, culture, recreation, and debt service. The business-type activities include water and sewer utilities and equipment maintenance and replacement services.

The government-wide financial statements include not only the City of Norton Shores (*the primary government*) but also the legally separate Tax Increment Financing and Brownfield Redevelopment Authorities. The boards of these organizations are appointed by the City and there is a potential for liability to the City. The financial information of these component units is reported separately from the financial information of the primary government itself.

Reporting on the City's major funds

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control and reporting of resources that are segregated for a specific purpose or activity with defined objectives. The City of Norton Shores is required by State law to use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Norton Shores are divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the City's short term financing needs.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, informed readers may better be able to understand the long-term impact of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City of Norton Shores maintains over fifteen individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major streets, and capital improvement fund. All of these funds are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non- major governmental funds is provided in the form of combining statements elsewhere in the report.

The City of Norton Shores adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparisons (original and final) have been provided for the major funds to demonstrate compliance with the budgets as required supplementary information. A comparison of budget to actual expenditures is provided for all non-major governmental funds in the combining financial statements - governmental activities by fund type.

Proprietary funds. The City of Norton Shores maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as "business-type activities" in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. City internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for equipment maintenance and replacement services. Because these services predominantly benefit governmental rather than business-type activities, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer funds which is considered a major fund of the City. Conversely, the internal service fund is presented in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own operations. The accounting used for fiduciary funds is like that used for proprietary funds (full accrual).

Notes to the basic financial statements. The notes provide additional information that is important to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information concerning the City's budgetary information as it relates to the actual expended and certain pension information with the corresponding trend data.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted previously, net assets may serve as a useful indicator of the City's overall financial health. The City of Norton Shores' assets exceed liabilities by \$65,452,826 at the close of fiscal year 2008, compared to \$65,552,673 at the close of fiscal year 2007.

The largest portion of net assets in the City (54%) are its capital assets (land, buildings, machinery and equipment), net of related debt outstanding used to acquire these assets. The City uses these capital assets to provide services to City residents and, therefore, are not available to fund future projects or operations. Although the City's investment in capital assets is reported net of capital debt, it is noted that resources needed to retire this debt must come from future sources of revenue, as the assets themselves can not be used to liquidate these obligations.

CITY OF NORTON SHORES NET ASSETS

Major Categories	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Cash and investments	\$ 8,380,658	\$ 8,527,286	\$ 579,769	\$ 1,383,502	\$ 8,960,427	\$ 9,910,788
Receivables	1,287,522	1,106,217	1,799,383	1,895,583	3,086,905	3,001,800
Other current assets	413,886	1,035,161	313,090	273,348	726,976	1,308,509
Long term assets	-	-	10,779,717	10,268,827	10,779,717	10,268,827
Capital assets	14,820,647	14,622,899	32,064,000	31,940,745	46,884,647	46,563,644
Facility rights	-	-	8,291,598	8,638,299	8,291,598	8,638,299
Total Assets	24,902,713	25,291,563	53,827,557	54,400,304,	78,730,270	79,691,867
Other liabilities	1,348,541	1,186,498	628,334	873,124	1,976,875	2,059,622
Long-term liabilities	630,051	1,037,961	10,670,518	11,041,611	11,300,569	12,079,572
Total Liabilities	1,978,592	2,224,459	11,298,852	11,914,735	13,277,444	14,139,194
Investment in capital assets – net of related debt	14,299,128	13,742,504	21,131,901	20,437,259	35,431,029	34,179,763
Restricted	682,505	615,847	10,779,717	10,268,827	11,462,222	10,884,674
Unrestricted	7,942,488	8,708,753	10,617,087	11,779,483	18,559,575	20,488,236
Total Net Assets	\$ 22,924,121	\$ 23,067,104	\$ 42,528,705	\$ 42,485,569	\$ 65,452,826	\$ 65,552,673

A portion (18%) of the City's net assets has certain restrictions placed on their use. The remaining balance of unrestricted net assets (\$18,559,575) can be used to meet the City's ongoing obligations to its residents and creditors. A major portion (39%) of the Governmental total assets of the City are cash and cash equivalents (liquid) and short-term receivables, which gives us a great ability to meet current obligations of short- and long-term nature. This ability allows the City to meet changing conditions in the market place as well as changes in the local economy.

Governmental Activities. Governmental activities decreased the City's net assets by \$142,983. This decrease was due primarily to increases in workers' compensation insurance premiums and legal costs.

Other elements in the increase/decrease are as follows:

CITY OF NORTON SHORES CHANGES IN NET ASSETS

Major Categories	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Revenues						
Program Revenues:						
Charges for services	\$1,831,971	\$1,753,775	\$5,155,873	\$4,936,513	\$6,987,844	\$6,690,288
Capital grants- contributions	79,800	78,740	-	-	79,800	78,740
General Revenues:						
Taxes	6,918,203	6,535,116	-	-	6,918,203	6,535,116
Special assessments levied	7,116	103,659	189,811	318,089	196,927	421,748
Licenses and permits	713,526	751,017	-	-	713,526	751,017
Intergovernmental revenue	3,527,840	3,500,755	-	-	3,527,840	3,500,755
Fines and forfeits	65,102	49,014	-	-	65,102	49,014
Interest income	219,193	348,836	66,188	351,333	285,381	700,169
Miscellaneous	176,152	211,334	328,171	29,186	504,323	240,520
Total Revenues	13,538,903	13,332,246	5,740,043	5,635,121	19,278,946	18,967,367
Expenses						
General government	2,590,673	2,436,413	-	-	2,590,673	2,436,413
Public safety	7,708,413	7,230,062	-	-	7,708,413	7,230,062
Highways and streets	1,624,974	1,561,115	-	-	1,624,974	1,561,115
Sanitation	504,779	383,283	-	-	504,779	383,283
Culture and recreation	535,602	548,191	-	-	535,602	548,191
Administration	888,969	979,422	-	-	888,969	979,422
Community development	56,590	76,378	-	-	56,590	76,378
Debt Service						
Interest	27,199	42,899	-	-	27,199	42,899
Water and sewer	-	-	5,696,907	5,315,175	5,696,907	5,315,175
Total Expenses	13,937,199	13,257,763	5,696,907	5,315,175	19,634,106	18,572,938
Increase (decrease) in net assets before transfers	(398,296)	74,483	43,136	319,946	(355,160)	394,429
Transfers	255,313	263,075	-	-	255,313	263,075
Increase (decrease) in net assets	(142,983)	337,558	43,136	319,946	(99,847)	657,504
Net Assets—July 1, 2007	23,067,104	22,729,546	42,485,569	42,165,623	65,552,673	64,895,169
Net Assets—June 30, 2008	\$ 22,924,121	\$ 23,067,104	\$ 42,528,705	\$ 42,485,569	\$ 65,452,826	\$ 65,552,673

Business-type activities. Business-type activities increased the City of Norton Shores' net assets by \$43,136 offsetting the total decrease in the governmental net assets. Water sales revenue and sewer service charges increased compared to last year accounting for the majority of the increase.

Financial analysis of the Government's Funds

As noted earlier, the City of Norton Shores uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Norton Shores' governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For the current fiscal year, the City of Norton Shores' governmental funds reported combined ending fund balances of \$7,990,486, a decrease of \$606,912 in comparison with the previous year. Approximately 83% of the fund balance (\$6,611,038) constitutes unreserved balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders of the prior period (\$696,943), 2) pay debt service (\$182,964), and 3) reserve for perpetual care (\$499,541).

The general fund is the chief operating fund of the City of Norton Shores. At the end of the current fiscal year, undesignated fund balance of the general fund and total fund balance was \$1,391,582. As one measure of the general fund's liquidity, it is useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 16% of total general fund expenditures, while total fund balance also represents 16% of that same amount. This percentage is a decrease of 1% over the prior year.

Major revenue items contributed to the \$339,203 increase in revenues in the general fund. Property taxes increased \$239,175; intergovernmental revenues decreased \$22,580 in the general fund. The majority of revisions to revenue were in the areas of charges for services and investment income. Expenses in the general fund were \$574,402, greater than the previous year, leading to a net decrease in fund balance of \$39,074 over the previous fiscal year.

Proprietary Funds. The City of Norton Shores proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the water and sewer system were \$10,617,087, with the equipment revolving funding showing unrestricted net assets of \$1,147,561.

General Fund Budgetary Expenditure Highlights

The decrease between the original budget and the final amended was very small (less than 1%) and is briefly summarized as follows:

- ❖ Increase in workers' compensation insurance premiums for all employee groups and legal fees.

Budgeted expenditures increased \$74,074. As indicated previously, increases in workers' compensation insurance premiums accounted for almost the entire appropriation increase. Therefore, total actual expenditures exceeded total budgeted expenditures and accounted for the decrease in the fund balance.

Capital Asset Administration

Capital Assets. The City of Norton Shores' investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to \$46,884,647 (net of accumulated depreciation) compared to \$46,563,644 at June 30, 2007. This involvement in capital assets includes land, buildings, improvements, machinery, equipment, water supply and sanitary sewer collection systems, infrastructure and capitalized interest and engineering. The total increase in the City's capital assets for the current fiscal year was not even 1%, net of depreciation. Additions for the fiscal years ended June 30, 2008 and 2007 are as follows:

	2008	2007
Land	\$ -	\$ -
Buildings	15,241	21,897
Land Improvements	15,288	36,782
Machinery and Equipment	1,308,741	1,005,720
Water Mains and Hydrants	4,686,547	405,145
Sewers and Lift Stations	105,761	669,859
Construction in Progress	19,563	-
Infrastructure	1,276,610	911,156

CITY OF NORTON SHORES CAPITAL ASSETS

Major Categories	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Land	\$ 1,875,699	\$ 1,875,699	\$ 250	\$ 250	\$ 1,875,949	\$ 1,875,949
Land improvements	1,393,998	1,378,710	-	-	1,393,998	1,378,710
Buildings and improvements	2,892,335	2,877,094	-	-	2,892,335	2,877,094
Machinery and equipment	12,789,028	11,897,629	214,539	114,912	13,003,567	12,012,541
Infrastructure	20,884,279	19,607,669	-	-	20,884,279	19,607,669
Regional Water System	-	-	1,510,285	1,510,285	1,510,285	1,510,285
City Water System	-	-	14,672,577	9,986,030	14,672,577	9,986,030
Sewers and lift stations	-	-	36,413,608	36,307,847	36,413,608	36,307,847
Wastewater treatment	-	-	5,400,608	5,400,608	5,400,608	5,400,608
Construction in progress	-	-	19,563	3,699,219	19,563	3,699,219
Total	\$ 39,835,339	\$ 37,636,801	\$ 58,231,430	\$ 57,019,151	\$ 98,066,769	\$ 94,655,952

Additional information on the City's capital assets can be found in Note 4 of the "Notes to Basic Financial Statements" of this report.

Long-term debt. At the end of the current fiscal year, the City of Norton Shores had total bonded debt outstanding of \$11,453,618. The bonded debt is backed by the limited full faith and credit of the City; that is, existing taxing authority or current revenues for the retirement of outstanding debt.

CITY OF NORTON SHORES OUTSTANDING DEBT

Major Categories	Governmental Activities 2008	Governmental Activities 2007	Business- Type Activities 2008	Business- Type Activities 2007	Total 2008	Total 2007
Limited full faith and credit bonds	\$ 350,000	\$ 650,000	\$ 10,932,099	\$ 11,503,486	\$ 11,282,099	\$ 12,153,486
CDBG Act 108 loan payable	45,000	65,000	-	-	45,000	65,000
Equipment capital lease payable	126,519	165,395	-	-	126,519	165,395
Accumulated compensated absences	519,011	516,450	78,943	93,639	597,954	610,089
Total	\$ 1,040,530	\$ 1,396,845	\$ 11,011,042	\$ 11,597,125	\$ 12,051,572	\$ 12,993,970

The City's total debt decreased by \$942,398 and this reduction was due entirely to normal debt payoffs as provided for in the FY-2008 budget.

Additional information on the City of Norton Shores' long-term debt can be found in Note 5 of the notes to the financial statements.

General Information

The economic climate in Muskegon County and West Michigan is currently in a minor recession. Unemployment and welfare caseloads have increase at a slow rate, although higher than both the state and federal rates as compared to County statistics. These increases are attributed to the weakening of the industrial base in the West Michigan area and its subsequent loss of jobs to other states and foreign countries. The City of Norton Shores continues to grow and diversify its base and is perceived as a good place to live, work, and do business.

- ❖ Several projects and achievements have contributed to the growth and quality of living in Norton Shores. Some of the more significant are:
- ❖ Bike lanes were added on Porter Road from Martin Road to Henry Street.
- ❖ Sternberg Road from Harvey Street to Grand Haven Road was milled and resurfaced and the US 31 northbound off-ramp was added at Sternberg Road.
- ❖ Henry Street reconstruction from Summit to Seminole and Norton Avenue from Seaway to Henry Street were finished in fiscal year 2008.
- ❖ The Red Robin Restaurant, Community Shores Bank and Lee's Funeral Home all began operating business in Norton Shores in fiscal year 2008.

Requests for Information

This financial report is designed to provide a general overview of the City of Norton Shores' finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Norton Shores
Finance Department
4814 Henry Street
Norton Shores, Michigan 49441
Telephone: (231) 799-6805

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<i>June 30, 2008</i>			
Assets			
Cash and cash equivalents	\$ 8,380,658	\$ 579,769	\$ 8,960,427
Receivables			
Accounts	253,326	1,008,011	1,261,337
Intergovernmental	780,468	-	780,468
Assessments	253,728	791,372	1,045,100
Prepaid items	413,886	55,712	469,598
Inventory of material and supplies	-	257,378	257,378
Restricted assets	-	10,779,717	10,779,717
Capital assets, net of accumulated depreciation	14,820,647	32,064,000	46,884,647
Water plant facility rights, net of amortization	-	8,291,598	8,291,598
	\$ 24,902,713	\$ 53,827,557	\$ 78,730,270
Liabilities			
Checks issued against future deposits	\$ 241,354	\$ -	\$ 241,354
Account payables	183,268	238,937	422,205
Accrued payroll	76,511	7,803	84,314
Special agreements payable	-	5,098	5,098
Long-term debt (Note 5)			
Due within one year	410,479	340,524	751,003
Due in more than one year	630,051	10,670,518	11,300,569
Unearned revenues	436,929	35,972	472,901
Total Liabilities	1,978,592	11,298,852	13,277,444
Net Assets			
Investment in capital assets net of related debt	14,299,128	21,131,901	35,431,029
Restricted for			
Debt service	182,964	-	182,964
Perpetual care	499,541	-	499,541
Capital improvements	-	10,779,717	10,779,717
Unrestricted	7,942,488	10,617,087	18,559,575
Net Assets	\$ 22,924,121	\$ 42,528,705	\$ 65,452,826

City of Norton Shores

Statement of Net Assets



Component Units	
Tax Increment Finance Authority	Brownfield Redevelopment Authority
\$ 1,445,584	\$ 193,233
-	-
-	-
-	-
18	-
-	-
-	-
2,409,187	-
-	-
\$ 3,854,789	\$ 193,233
\$ -	\$ -
3,596	-
252	-
-	-
-	-
-	-
-	-
3,848	-
2,409,187	-
-	-
-	-
-	-
1,441,754	193,233
\$ 3,850,941	\$ 193,233

The accompanying notes are an integral part of this statement.

		Program Revenues		
<i>Year ended June 30, 2008</i>	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Government activities				
General government	\$ 2,590,673	\$ 1,182,039	\$ -	\$ -
Public safety	7,708,413	508,155	-	-
Highways and streets	1,624,974	-	-	79,800
Sanitation	504,779	-	-	-
Culture and recreation	535,602	141,777	-	-
Administration	888,969	-	-	-
Community development	56,590	-	-	-
Debt service				
Interest	27,199	-	-	-
Total Government Activities	13,937,199	1,831,971	-	79,800
Business-Type Activities				
Water and sewer	5,696,907	5,155,873	-	-
Total Primary Government	\$19,634,106	\$ 6,987,844	\$ -	\$ 79,800
Component Units	\$ 309,425	\$ -	\$ -	\$ -
General Revenues				
Taxes				
Special assessments levied				
Licenses and permits				
Intergovernmental revenue				
Fines and forfeits				
Interest income				
Miscellaneous				
Transfers from component units				
Total General Revenues, Special Items, and Transfers				
Change in Net Assets				
Net Assets , at beginning of year				
Net Assets , at end of year				

City of Norton Shores

Statement of Activities

	Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Primary Government Business-Type Activities		Tax Increment Finance Authority	Brownfield Redevelopment Authority
Total	Governmental		Total		
\$ 1,182,039	\$ (1,408,634)	\$ -	\$ (1,408,634)	\$ -	\$ -
508,155	(7,200,258)	-	(7,200,258)	-	-
79,800	(1,545,174)	-	(1,545,174)	-	-
-	(504,779)	-	(504,779)	-	-
141,777	(393,825)	-	(393,825)	-	-
-	(888,969)	-	(888,969)	-	-
-	(56,590)	-	(56,590)	-	-
-	(27,199)	-	(27,199)	-	-
1,911,771	(12,025,428)	-	(12,025,428)	-	-
5,155,873	-	(541,034)	-	-	-
\$ 7,067,644	(12,025,428)	(541,034)	(12,025,428)	-	-
\$ -				(211,216)	(98,209)
	6,918,203	-	6,918,203	1,206,074	156,139
	7,116	189,811	196,927	-	-
	713,526	-	713,526	-	-
	3,527,840	-	3,527,840	-	-
	65,102	-	65,102	-	-
	219,193	66,188	285,381	-	-
	176,152	328,171	504,323	-	-
	255,313	-	255,313	(255,313)	-
	11,882,445	584,170	12,466,615	950,761	156,139
	(142,983)	43,136	(99,847)	739,545	57,930
	23,067,104	42,485,569	65,552,673	3,111,396	135,303
	\$ 22,924,121	\$ 42,528,705	\$ 65,452,826	\$ 3,850,941	\$ 193,233

The accompanying notes are an integral part of this statement.

<i>June 30, 2008</i>	General Fund	Major Streets Fund
Assets		
Cash and cash equivalents	\$ 897,401	\$ -
Due from other governments	503,887	204,641
Receivables		
Accounts	208,819	8,186
Assessments	-	-
Prepaid items	311,229	37,320
Total Assets	\$ 1,921,336	\$ 250,147
Liabilities		
Checks issued against future deposits	\$ -	\$ 241,354
Accounts payable	142,639	3,606
Accrued payroll	62,036	4,812
Unearned revenues	325,079	-
Total Liabilities	529,754	249,772
Fund Balances		
Reserved for debt service	-	-
Reserved for perpetual care	-	-
Unreserved		
Designated for subsequent year's expenditures	-	-
Undesignated	1,391,582	375
Total Fund Balances	1,391,582	375
Total Liabilities and Fund Balances	\$ 1,921,336	\$ 250,147

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used for government activities are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment leasing to individual funds. The assets and liabilities of the Internal Service Funds are included in the Governmental Activities in the Governmental-Wide Statement of Net Assets.

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental Funds Balance Sheet.

City of Norton Shores

Governmental Funds

Balance Sheet

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,984,635	\$ 4,374,373	\$ 7,256,409
-	71,940	780,468
24,000	12,201	253,206
-	253,728	253,728
-	28,772	377,321
\$ 2,008,635	\$ 4,741,014	\$ 8,921,132
\$ -	\$ -	\$ 241,354
7,552	24,494	178,291
-	7,224	74,072
3,311	108,539	436,929
10,863	140,257	930,646
-	182,964	182,964
-	499,541	499,541
456,943	240,000	696,943
1,540,829	3,678,252	6,611,038
1,997,772	4,600,757	7,990,486
\$ 2,008,635	\$ 4,741,014	
		13,498,349
		2,469,859
		(1,034,573)
		\$ 22,924,121

The accompanying notes are an integral part of this statement.

	General Fund	Major Streets Fund
<i>Year ended June 30, 2008</i>		
Revenues		
Taxes	\$4,610,425	\$ -
Special assessments levied	-	-
Licenses and permits	273,750	-
Intergovernmental revenues	1,781,750	1,329,537
Charges for services	1,805,591	-
Fines and forfeits	65,102	-
Interest income	152,381	2,411
Miscellaneous revenue	58,858	41,046
Total Revenues	8,747,857	1,372,994
Expenditures		
General government	2,284,953	-
Public safety	5,633,777	-
Highways and streets	332,599	903,664
Solid waste disposal	-	-
Culture and recreation	535,602	-
Administration	-	266,990
Community development	-	-
Capital outlay	-	1,254,310
Debt service		
Principal payments	-	-
Interest	-	-
Total Expenditures	8,786,931	2,424,964
Revenues over (under) expenditures	(39,074)	(1,051,970)
Other Financing Sources (Uses)		
Interfund transfers in	-	773,365
Interfund transfers out	-	-
Total Other Financing Sources (Uses)	-	773,365
Revenues and other sources over (under) expenditures and other uses	(39,074)	(278,605)
Fund Balance, at beginning of year	1,430,656	278,980
Fund Balance, at end of year	\$ 1,391,582	\$ 375

City of Norton Shores

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Capital Improvements Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,706,504	\$ 601,274	\$ 6,918,203
-	7,116	7,116
-	439,776	713,526
-	496,353	3,607,640
-	26,380	1,831,971
-	-	65,102
22,245	42,156	219,193
37,723	38,525	176,152
1,766,472	1,651,580	13,538,903
-	8,396	2,293,349
-	498,053	6,131,830
-	388,711	1,624,974
-	504,779	504,779
-	-	535,602
362,907	259,072	888,969
-	56,590	56,590
702,351	22,299	1,978,960
38,876	320,000	358,876
6,790	20,409	27,199
1,110,924	2,078,309	14,401,128
655,548	(426,729)	(862,225)
-	340,625	1,113,990
(858,677)	-	(858,677)
(858,677)	340,625	255,313
(203,129)	(86,104)	(606,912)
2,200,901	4,686,861	8,597,398
\$ 1,997,772	\$ 4,600,757	\$ 7,990,486

The accompanying notes are an integral part of this statement.

City of Norton Shores

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2008

Net Change in Fund Balances – Total Governmental Funds \$ (606,912)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Capital outlay	1,978,960
Depreciation expense	(1,860,242)

The repayment of long-term debt consumes current financial resources but does not affect net assets	358,876
--	---------

The accrual of sick and annual wages does not consume current financial resources but does reduce net assets, therefore, they are not reported in governmental funds	(2,247)
--	---------

The net revenue of certain activities of internal service funds is reported with governmental activities	(11,418)
---	----------

Change in Net Assets of Governmental Activities \$ (142,983)

The accompanying notes are an integral part of this statement.

City of Norton Shores

Proprietary Funds

Statement of Net Assets

		Governmental Activities
	Water & Sewer Funds	Internal Service Funds
June 30, 2008		
Assets		
Cash and cash equivalents	\$ 579,769	\$ 1,124,249
Receivables		
Accounts	1,008,011	120
Assessments	791,372	-
Prepaid items	55,712	36,565
Inventory of material and supplies	257,378	-
Restricted assets	10,779,717	-
Property, plant and equipment, net of accumulated depreciation (Note 4)	32,064,000	1,322,298
Water plant facility rights, net of amortization of \$1,126,703	8,291,598	-
Total Assets	\$ 53,827,557	\$ 2,483,232

The accompanying notes are an integral part of this statement.

This statement covers more than one page.

City of Norton Shores

Proprietary Funds

Statement of Net Assets

		Governmental Activities
	Water & Sewer Funds	Internal Service Funds
<i>June 30, 2008</i>		
Liabilities		
Accounts payable	\$ 238,937	\$ 4,977
Accrued payroll	7,803	2,439
Special agreements payable	5,098	-
Deferred revenues	35,972	-
Long-term debt (Note 5)		
Due within one year	340,524	-
Due in more than one year	10,670,518	5,957
Total Liabilities	11,298,852	13,373
Net Assets		
Investment in capital assets, net of related debt	21,131,901	1,322,298
Restricted for capital improvements	10,779,717	-
Unrestricted	10,617,087	1,147,561
Total Net Assets	\$ 42,528,705	\$ 2,469,859

The accompanying notes are an integral part of this statement.

City of Norton Shores

Proprietary Funds

Statement of Revenues, Expenses and Changes in Net Assets

		Governmental Activities
	Water & Sewer Funds	Internal Service Funds
<i>Year ended June 30, 2008</i>		
Operating Revenues		
Water sales	\$ 2,840,267	\$ -
Plumbing permits	3,095	-
Sewer service charges	2,250,442	-
Water service installations and direct sewer connections	189,811	-
Penalties on utility billings	62,069	-
Billings to departments	-	1,161,386
Miscellaneous operating revenues	37,971	50,903
Total Operating Revenues	5,383,655	1,212,289
Total Operating Expenses	5,127,881	1,246,682
Operating profit (loss)	255,774	(34,393)
Non-Operating Revenues (Expenses)		
Interest income	66,188	13,790
Gain on sale of equipment	-	9,185
Interest expense	(569,026)	-
Other	290,200	-
Total Non-Operating Revenues (Expenses)	(212,638)	22,975
Change in Net Assets	43,136	(11,418)
Net Assets, at beginning of year	42,485,569	2,481,277
Net Assets, at end of year	\$ 42,528,705	\$ 2,469,859

The accompanying notes are an integral part of this statement.

City of Norton Shores

Proprietary Funds

Statement of Cash Flows

	Water & Sewer Funds	Governmental Activities Internal Service Funds
<i>Year ended June 30, 2008</i>		
Cash Flows from Operating Activities		
Operating income (loss)	\$ 255,774	\$ (34,393)
Adjustments to reconcile operating income (loss) to net cash provided by operations		
Decrease in deferred revenue	(40,420)	-
Depreciation and amortization	1,435,725	458,263
Changes in assets and liabilities		
Accounts receivable	(81,329)	380
Prepaid expenses	14,985	8,965
Inventory	(54,727)	-
Accounts payable	13,440	812
Accrued liabilities	(2,820)	(130)
Total Cash Flows from Operating Activities	1,540,628	433,897
Cash Flows from Capital and Related Financing Activities		
Principal payments on long-term debt	(571,387)	-
Interest payments on long-term debt	(569,026)	-
Decrease in compensated absences	(14,696)	-
Proceeds from sale of fixed assets	-	9,185
Other non-operating revenue	290,200	-
Purchase of fixed assets	-	(537,293)
Construction of water and sewer lines	(1,212,279)	-
Collections of special assessments	177,529	-
Total Cash Flows from Capital and Related Financing Activities	(1,899,659)	(528,108)
Cash Flows from Investing Activities		
Interest income	66,188	13,790
Decrease in Cash and Cash Equivalents	(292,843)	(80,421)
Cash and Cash Equivalents , at beginning of year	11,652,329	1,204,670
Cash and Cash Equivalents, at end of year	\$ 11,359,486	\$ 1,124,249
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 579,769	\$ 1,124,249
Restricted assets	10,779,717	-
	\$ 11,359,486	\$ 1,124,249

The accompanying notes are an integral part of this statement.

City of Norton Shores

Fiduciary Funds

Statement of Fiduciary Net Assets

		Agency Funds
<i>June 30, 2008</i>		
Assets		
Cash and cash equivalents	\$	56,730
Liabilities		
Performance deposits	\$	17,525
Due to other governments		39,205
	\$	56,730

The accompanying notes are an integral part of this statement.

City of Norton Shores

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the City of Norton Shores have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Financial Reporting Entity

The City of Norton Shores was incorporated April 16, 1968, under the provisions of the Home Rule Act of the State of Michigan. The City operates under a Mayor-Council form of government with a professional City Administrator. The City of Norton Shores provides the following services as authorized by its charter or state law: General Administrative Services, Public Safety, Highway and Street Maintenance, Sanitation, Culture, Recreation and Other Governmental Functions. The accounting policies of the City of Norton Shores conform to generally accepted accounting principles as applicable to cities. As required by generally accepted accounting principles, Governmental Accounting Standards Board (GASB) 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Component Units – In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units. Discretely presented component units have a June 30th year end.

City of Norton Shores

Notes to Basic Financial Statements

Discretely presented component units – The Component Units column in the combined financial statements includes the financial data of the City's other component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

The Economic Development Corporation of the City of Norton Shores (EDC) was incorporated as a nonprofit corporation pursuant to the provisions of Act 338, Public Acts of 1974, of the State of Michigan as amended. Members of the EDC are appointed by the City Council. The EDC is fiscally dependent on the City since the City Council approves the EDC budget. Organized primarily to expand the City's industrial base, the EDC acquired, developed and marketed an industrial park in the City and provides for other economic development related projects. With the completion of infrastructure lot sales in its Phase II Development, assets of the EDC were transferred to the City and have been classified as the Industrial Development Fund in the Capital Project Funds to allow for fund accumulation to finance future industrial development.

The Tax Increment Financing Authority of the City of Norton Shores (TIFA) was incorporated as a nonprofit corporation pursuant to the provisions of Act 450, Public Acts of 1980, of the State of Michigan, as amended. Organized primarily to expand the City's industrial park, the TIFA district was expanded in late 1986 to provide for commercial and industrial development along the U.S. 31 corridor in the eastern part of the City. For financial reporting purposes, the TIFA is reported as a discretely presented component unit in that members of the TIFA are approved by the City Council and the TIFA is fiscally dependent on the City since the City Council approves the TIFA budget. The TIFA is presented as a governmental fund type.

City of Norton Shores

Notes to Basic Financial Statements

The Brownfield Redevelopment Authority of the City of Norton Shores (Authority) was incorporated as a nonprofit corporation pursuant to the provisions of Act 381, Public Acts of 1996, of the State of Michigan, as amended. The objective of the Authority is to facilitate Brownfield Redevelopment by providing funding for eligible environmental activities and allowing developers to obtain a Single Business Tax Credit for eligible investments in Brownfield properties. For financial reporting purposes, the Authority is reported as a discretely presented component unit in that members of the Authority are approved by the City Council and the Authority is fiscally dependent on the City since the City Council approves the Authority budget. The Authority is presented as a governmental fund type.

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of Norton Shores

Notes to Basic Financial Statements

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City first utilizes restricted resources to finance qualifying activities.

City of Norton Shores

Notes to Basic Financial Statements

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

City of Norton Shores

Notes to Basic Financial Statements

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for motor fuel tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City’s major streets.

Capital Improvements Fund – The Capital Improvements Fund is used to account for the City Charter – authorized two (2) mill property tax levy and related restricted revenues for the acquisition of land, equipment, facilities, improvements and similar items for general governmental use.

City of Norton Shores

Notes to Basic Financial Statements

The City reports the following major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for user fees, contributed capital and related revenues for the acquisition and operation of the Water and Sewer Utility System.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchases of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments.

Cash equivalents are short-term, highly liquid investments that have the following characteristics:

- Investments that are readily convertible to known amounts of cash.
- Investments that mature in such a short period of time that their values are effectively immune from changes in interest rates.
- Original maturity of three months or less.

City of Norton Shores

Notes to Basic Financial Statements

Investments are stated at fair value. The city maintains a pooled investment fund to account for all investments of the various City funds. Investments within this pooled investment fund are shown on the balance sheets of each individual fund as cash and cash equivalents.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property Taxes

Property taxes attach as enforceable liens on property as of December 31st. Taxes are levied on July 1st of the following year and are payable from the date of levy through August 31st without penalty and until March 1st of the following year with penalty. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year following the levy date (July 1st).

The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the Trust and Agency Fund. The City is permitted by charter or state law without voter approval to levy taxes up to \$7.00 per \$1,000 of state equalized valuation for general governmental purposes, \$3.00 for sanitation and the amount required to service the General Obligation Debt. The tax rate to finance City services for the year ended June 30, 2008 was \$7.70 per \$1,000 of taxable valuation.

City of Norton Shores

Notes to Basic Financial Statements

Inventories

Inventory in the water and sewer fund is valued at the lower of cost (first-in, first-out) or market. Inventory in the governmental funds consist of expendable supplies which are recorded as an expenditure at the time individual inventory items are purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items. These prepaid items are primarily insurance premiums and fiscal year 2009 memberships invoiced prior to July 1, 2008. The City follows the consumption method of accounting in reporting these items and, therefore, no offset by a fund balance reserve is required.

Restricted Assets

Certain proceeds of enterprise fund general obligation bonds, as well as certain resources set aside for future sanitary sewer improvements, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or City Council resolution.

Capital Assets

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

City of Norton Shores

Notes to Basic Financial Statements

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following useful lives:

Assets	Years
Buildings and additions	20-50
Vehicles	4-8
Furniture and other equipment	10
Infrastructure	20

Compensated Absences

The liability for compensated absences reported in the city-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

City of Norton Shores

Notes to Basic Financial Statements

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

City of Norton Shores

Notes to Basic Financial Statements

Comparative Data

Comparative total data for the prior year has not been presented in the accompanying financial statements.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

2. Legal Compliance - Budgets

During the month of February of each year, all agencies of the City submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared by fund, function and activity on a program basis, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

At the second City Council meeting in April, the proposed budget is presented to the Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations. Any changes in the budget must be within the revenues and reserves estimated as available by the City Administrator or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

City of Norton Shores

Notes to Basic Financial Statements

Expenditures may not legally exceed budgeted appropriations at the activity level. During the year, several supplementary appropriations were necessary. The supplementary appropriations in all cases were immaterial, consisting primarily of authorized expenditure of funds approved in the prior year but occurring in the current fiscal year. These supplementary appropriations are required due to annual appropriations lapsing at fiscal year end.

**3. Cash and
Temporary
Investments**

Deposits

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk related to deposits is the risk that, in the event of a bank failure, the City's deposits might not be recovered. It is the City's policy to reduce custodial credit risk related to deposits by using only pre-qualified financial institutions, broker/dealers, intermediaries and advisors. At June 30, 2008, \$382,427 of the City's bank balances of \$482,427 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 382,427</u>
--------------------------------	-------------------

City of Norton Shores

Notes to Basic Financial Statements

Investments

At June 30, 2008, the City had the following investments:

Investment	Fair Value
GNMA Bonds	\$ 14,412,226
Certificates of Deposit	562,141
Money Market Funds	1,825,821
Mutual Funds	2,639,392
Unit Investment Trusts	1,687,899
Total	\$ 21,127,479

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. It is the City's policy to reduce interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Custodial Credit Risk Related to Investments

Custodial credit risk related to investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. All of the City's investments are held in the name of the City.

City of Norton Shores

Notes to Basic Financial Statements

Credit Risk

State statutes authorize the City to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Pool Act and mutual funds composed entirely of the above investments.

The City had no investment policy that would further limit its investment choices. The City's investment in unit investment trusts and money market funds were not rated at June 30, 2008.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

City of Norton Shores

Notes to Financial Statements

4. Capital Assets

Capital asset activity of the City's governmental activities was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental Activities				
Capital assets, not depreciable:				
Land	\$ 1,875,699	\$ -	\$ -	\$ 1,875,699
Capital assets being depreciated:				
Buildings	2,877,094	15,241	-	2,892,335
Land improvements	1,378,710	15,288	-	1,393,998
Machinery, equipment, vehicles and fixtures	11,897,629	1,209,114	317,715	12,789,028
Infrastructure	19,607,669	1,276,610	-	20,884,279
Total assets being depreciated	35,761,102	2,516,253	317,715	37,959,640
Less accumulated depreciation for:				
Buildings	(1,667,975)	(57,827)	-	(1,725,802)
Improvements	(625,365)	(27,880)	-	(653,245)
Machinery, equipment, vehicles and fixtures	(8,693,411)	(1,312,455)	317,715	(9,688,151)
Infrastructure	(12,027,151)	(920,343)	-	(12,947,494)
Total accumulated depreciation	(23,013,902)	(2,318,505)	317,715	(25,014,692)
Total capital assets being depreciated, net	12,747,200	197,748	-	12,944,948
Governmental Activities—Capital Assets, Net	\$ 14,622,899	\$ 197,748	\$ -	\$ 14,820,647

City of Norton Shores

Notes to Financial Statements

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Business-Type				
Capital assets, not depreciable:				
Land	\$ 250	\$ -	\$ -	\$ 250
Construction in progress	3,699,219	19,563	3,699,219	19,563
Total capital assets, not depreciable	3,699,469	19,563	3,699,219	19,813
Capital assets being depreciated:				
Regional water system	1,510,285	-	-	1,510,285
Water mains and hydrants	9,973,682	4,686,547	-	14,660,229
Meters	12,348	-	-	12,348
Sewers and lift stations	36,307,847	105,761	-	36,413,608
Machinery and equipment	114,912	99,627	-	214,539
Wastewater treatment	5,400,608	-	-	5,400,608
Total assets being depreciated	53,319,682	4,891,935	-	58,211,617
Less accumulated depreciation for:				
Water mains and hydrants	(4,133,310)	(242,524)	-	(4,375,834)
Meters	(12,348)	-	-	(12,348)
Sewers and lift stations	(17,282,054)	(832,268)	-	(18,114,322)
Machinery and equipment	(114,912)	(14,232)	-	(129,144)
Wastewater treatment	(3,535,782)	-	-	(3,535,782)
Total accumulated depreciation	(25,078,406)	(1,089,024)	-	(26,167,430)
Total capital assets being depreciated, net	28,241,276	3,802,911	-	32,044,187
Business-type Activities—Capital Assets, Net	\$31,940,745	\$ 3,822,474	\$ 3,699,219	\$ 32,064,000
Component Units				
Tax Increment Finance Authority				
Capital assets, not depreciable:				
Land	\$ 171,906	\$ 276,871	\$ -	\$ 448,777
Capital assets being depreciated:				
Building and infrastructure	1,493,274	639,679	-	2,132,953
Less accumulated depreciation for:				
Building and infrastructure	(88,500)	(84,043)	-	(172,543)
Total capital assets being depreciated, net	1,404,774	555,636	-	1,960,410
Component Unit—Capital Assets, Net	\$ 1,576,680	\$ 832,507	\$ -	\$ 2,409,187

City of Norton Shores

Notes to Basic Financial Statements

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 741,922
Public safety	1,576,583
Total Depreciation Expense - Governmental Activities	\$ 2,318,505
Business-Type activities:	
Water and Sewer	\$ 1,089,024

5. Long-Term Debt The following is a summary of the long-term debt outstanding of the City as of June 30, 2008.

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental Activities					
1993 Michigan Transportation Fund Bonds maturing through October 2008 with interest ranging from 3.125% - 4.875%.	\$ 650,000	\$ -	\$ (300,000)	\$ 350,000	\$ 350,000
CDBG Act 108 loan payable in installments of \$20,000. Final payment due August 2009.	65,000	-	(20,000)	45,000	20,000
Installment loan payable in annual installments of \$45,666 including interest at 4.10%. Final payment due September 2010.	165,395	-	(38,876)	126,519	40,479
Accumulated compensated absences	516,450	2,561	-	519,011	-
Total Governmental Activities					
Long-Term Debt	\$ 1,396,845	\$ 2,561	\$ (358,876)	\$ 1,040,530	\$ 410,479

City of Norton Shores

Notes to Basic Financial Statements

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Business Type Activities					
Obligations under contract with County of Muskegon	\$ 3,008,798	\$ -	\$ (368,298)	\$ 2,640,500	\$ 151,250
Obligations under contract with the City of Muskegon Heights	8,494,688	-	(203,089)	8,291,599	189,274
Accumulated compensated absences	93,639	-	(14,696)	78,943	-
Total Business Type Activities					
Long-Term Debt	\$ 11,597,125	\$ -	\$ (586,083)	\$ 11,011,042	\$ 340,524
Total All Long-Term Liabilities	\$ 12,993,970	\$ 2,561	\$ (944,959)	\$ 12,051,572	\$ 751,003

The 1992 Muskegon County Wastewater Management System No. 1 contract was entered into with the County for increased construction costs incurred with respect to the 1989 contract for improvements to the sewage treatment facility. The City has pledged its limited tax full faith and credit toward the retirement of its share of the \$2,300,000 bond issue. In compliance with constitutional limitations, the City is utilizing sewer service charges as the retirement vehicle. This bond was paid in full during 2008.

City of Norton Shores

Notes to Basic Financial Statements

The 2000 Muskegon County Water Supply System No. 1, Series II contract was entered into with the County for the construction of a regional transmission water main, enhancements for water supply storage, and construction of distribution water mains in the City. The City of Norton Shores is responsible for annual debt service in the amount equal to its share of system construction costs, currently estimated at 55% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$6,500,000 bond issue. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle. Annual payments by the City for principal retirement will range from \$96,250 to \$302,500, with \$151,250 due in 2009.

Bond ordinances of several past issues contain provisions that restrict the use of unexpended bond proceeds for additional sewer system improvements or retirement of the related debt. The unexpended proceeds and accumulated investment earnings are presented as restricted assets.

The 2000 Muskegon Heights Water Supply System contract was entered into with the City of Muskegon Heights to provide a 7.8 million gallon per day water treatment capacity increase to service the cities of Muskegon Heights, Norton Shores and Fruitport Township. The City of Norton Shores is responsible for annual debt service in an amount equal to its previous year pro-rata share of water purchases, currently estimated at 50.62% of the total. The City has pledged its limited full faith and credit toward the retirement of its share of the \$18,485,000 bond issue. In compliance with constitutional limitations, the City is utilizing water service charges as the retirement vehicle.

City of Norton Shores

Notes to Basic Financial Statements

The total required payment for principal and interest amounted to \$11,453,618 and \$7,453,129, respectively at June 30, 2008 as follows:

	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2009-2013	\$ 521,519	\$ 20,138	\$ 1,914,930	\$ 2,768,755
2014-2018	-	-	2,553,456	2,195,066
2019-2023	-	-	2,397,525	1,471,549
2024 and beyond	-	-	4,066,188	997,621
	\$ 521,519	\$ 20,138	\$10,932,099	\$ 7,432,991

6. Interfund Transfers

Interfund transfers during the fiscal year were as follows:

<i>Fund</i>	Transfer in	Transfer out
Major Streets	\$ 773,365	\$ -
Capital Improvements	-	858,677
Local Improvement	25,000	-
Debt Service	315,625	-
Tax Incremental Finance Authority	-	255,313
	\$1,113,990	\$ 1,113,990

The transfers to the major streets fund and local improvements fund were for the construction of capital projects. The transfer to the debt service fund was for future retirement of debt.

City of Norton Shores

Notes to Basic Financial Statements

7. Risk Management

The City purchases insurance and participates in public entity risk pools for the various risks associated with City operations. Significant risk management activities of the City are accounted for and disclosed below as required by GASB 10.

The City is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains its liability insurance coverage as a member of the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing liability and property coverage to its participating members. The City pays an annual premium to MMLPP for liability insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrences based coverage by internally insuring certain risks and reinsuring risks through commercial companies. A \$1,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Fund (MMLWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMLWCF for its workers compensation coverage. The MMLWCF is self-sustaining through member premiums and provides statutory workers compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past four fiscal years.

City of Norton Shores

Notes to Basic Financial Statements

8. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

9. Post-Employment Health Care Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") issued its Statement No. 45 - *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension*. Other post-employment benefits ("OPEB") include post-employment healthcare insurance as well as other forms of post-employment benefits (for example, life insurance) when provided separately from a pension plan. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense / expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

The City currently provides certain healthcare benefits for retired employees. All of the City's full-time employees may become eligible for these benefits if they qualify for retirement while employed by the City. Similar to other governmental units, the City has funded its OPEB program on a pay-as-you-go basis, but will be required to begin reporting OPEB on an actuarial basis in its fiscal year beginning July 1, 2008.

City of Norton Shores

Notes to Basic Financial Statements

As of year end, there were 62 retired employees receiving benefits. For the year ended June 30, 2008, the City's post-retirement health care cost under the Plan was approximately \$461,000.

10. Retirement Plan Plan Description

The City's defined benefit pension plan, City of Norton Shores Employees' Retirement System (CNSERS), provides retirement, death and disability benefits to plan members and beneficiaries. CNSERS is affiliated with the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer pension plan administered by the nine member board of MERS. Public Act 135 of 1945 as amended by Public Act 220 of 1996 assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for CNSERS, that authority rests with the City of Norton Shores.

MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting Municipal Employees' Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy

CNSERS members are not required to contribute. The City is required to contribute at actuarially determined rates; the current rates range from 14.48% to 39.67% of annual covered payroll depending on the level of benefits adopted for the member groups of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

City of Norton Shores

Notes to Basic Financial Statements

Annual Pension Cost

For the year ending June 30, 2008, the City's annual pension cost of \$1,189,212 for CNSERS was equal to the City's required contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 4.5% inflation rate, compounded annually, (b) 8.0% investment rate of return (net of administrative expenses), (c) projected salary increases of 0.0% to 8.74% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of CNSERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. CNSERS' unfunded actuarial accrued liability is being amortized as a level percentage of payroll over an open amortization period of 30 years.

Three-Year Trend Information for CNSERS

Fiscal year ended:	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
6/30/2006	\$ 949,075	100	\$ -
6/30/2007	1,162,621	100	-
6/30/2008	1,189,212	100	-

Funded Status and Funding Progress. As of December 31, 2007, the most recent actuarial valuation date, the plan was 62 percent funded. The actuarial accrued liability for benefits was \$31,158,070, and the actuarial value of assets was \$19,446,431, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,711,639. The covered payroll (annual payroll of active employees covered by the plan) was \$5,342,670, and the ratio of the UAAL to the covered payroll was 219 percent.

City of Norton Shores

Notes to Basic Financial Statements

The schedule of funding progress, presented as Required Supplemental Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

11. Excess of Expenditures Over Revenues in Budgetary Funds

During the year ended June 30, 2008, the City incurred expenditures in various funds which were in excess of amounts appropriated, as follows:

<i>Year ended June 30, 2008</i>	<i>Appropriation</i>	<i>Actual Expenditures</i>
Elections	\$ 72,528	\$ 73,002
Finance Administration	96,765	96,847
Legal Services	176,800	192,399
City Treasurer	171,311	171,390
Building and Grounds Maintenance	165,420	165,736
Cemetery	43,436	53,899
Investigation	424,420	424,484
Fire Management	240,965	240,982
Operations	1,561,832	1,607,109
Street Lighting	305,000	310,320
Recreation Programs	97,557	97,645
Library	94,817	95,180
Major Streets - Traffic Services	132,000	132,238
Major Streets - Administration	265,570	266,988
Local Streets - Winter Maintenance	105,000	107,394
Local Streets - Administration	137,202	138,599
Solid Waste - Disposal	240,111	241,948
Local Improvement - Construction	-	22,299
Building Fund - Building Inspection	544,094	554,629
Capital Improvements - Public Works Management	976,676	977,196
Water System Maintenance	705,871	1,129,168
Sewage Treatment	993,100	1,010,956
Sewer System Maintenance	500,265	1,385,417
Equipment Revolving - Equipment Maintenance	785,771	1,246,682

All expenditures over appropriations as identified above have been paid by excess revenues or by reduced expenditures in other activities.

Required Supplemental Information



	General Fund			
<i>Year ended June 30, 2008</i>	Original Budget	Final Budget	Actual	Difference
Revenues				
Taxes	\$ 4,568,500	\$ 4,568,500	\$ 4,610,425	\$ 41,925
Licenses and permits	242,300	257,300	273,750	16,450
Intergovernmental revenue				
Federal	-	5,000	3,136	(1,864)
State	1,732,548	1,732,548	1,778,614	46,066
Charges for services	1,892,000	1,902,000	1,805,591	(96,409)
Fines and forfeits	80,750	80,750	65,102	(15,648)
Interest income	135,335	144,409	152,381	7,972
Miscellaneous	25,000	60,000	58,858	(1,142)
Total Revenues	8,676,433	8,750,507	8,747,857	(2,650)
Expenditures				
Current operations				
General government	2,227,967	2,272,709	2,284,953	12,244
Public safety	5,530,784	5,600,083	5,633,777	33,694
Highways and streets	339,380	337,375	332,599	(4,776)
Culture and recreation	578,302	540,340	535,602	(4,738)
Administration	-	-	-	-
Total Expenditures	8,676,433	8,750,507	8,786,931	36,424
Revenues Over (Under) Expenditures	-	-	(39,074)	(39,074)
Other Financing Sources (Uses)				
Interfund transfers in	-	-	-	-
Interfund transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(39,074)	(39,074)
Fund Balance, at beginning of year	1,430,656	1,430,656	1,430,656	-
Fund Balance, at end of year	\$ 1,430,656	\$ 1,430,656	\$ 1,391,582	\$ (39,074)

City of Norton Shores

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Governmental Funds

Major Streets				
Original Budget	Final Budget	Actual	Difference	
\$ -	\$ -	\$ -	\$ -	
-	-	-	-	
-	-	-	-	
1,470,813	1,405,778	1,329,537	(76,241)	
-	-	-	-	
-	-	-	-	
7,250	7,250	2,411	(4,839)	
38,000	42,519	41,046	(1,473)	
1,516,063	1,455,547	1,372,994	(82,553)	
-	-	-	-	
-	-	-	-	
2,099,380	2,242,322	2,157,974	(84,348)	
-	-	-	-	
260,570	265,570	266,990	1,420	
2,359,950	2,507,892	2,424,964	(82,928)	
(843,887)	(1,052,345)	(1,051,970)	375	
486,238	773,365	773,365	-	
-	-	-	-	
486,238	773,365	773,365	-	
(357,649)	(278,980)	(278,605)	375	
278,980	278,980	278,980	-	
\$ (78,669)	\$ -	\$ 375	\$ 375	

City of Norton Shores

Required Supplementary Information for Pension Plans - GASB 50



Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 31:						
2005	\$ 17,440,195	\$ 27,651,800	\$ 10,211,605	63.07%	\$ 4,909,378	208.00%
2006	18,373,178	29,269,380	10,896,202	62.77%	5,179,608	210.37%
2007	19,446,431	31,158,070	11,711,639	62.41%	5,342,670	219.21%

<i>June 30, 2008</i>	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
Assets				
Cash and cash equivalents	\$ 221,262	\$ 1,100,364	\$ 127,612	\$ 9,569
Due from other governments	71,940	-	-	-
Accounts receivable	-	-	340	806
Special assessments receivable	-	-	-	-
Prepaid items	11,918	-	8,833	-
Total Assets	\$ 305,120	\$ 1,100,364	\$ 136,785	\$ 10,375
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 8,650	\$ 2,192	\$ 7,990	\$ 5,662
Accrued payroll	2,154	2,174	2,896	-
Unearned revenues	-	-	-	859
Total Liabilities	10,804	4,366	10,886	6,521
Fund balances				
Reserved for debt service	-	-	-	-
Reserved for perpetual care	-	-	-	-
Unreserved				
Designated for subsequent year's expenditures	-	-	-	-
Undesignated	294,316	1,095,998	125,899	3,854
Total Fund Balances	294,316	1,095,998	125,899	3,854
Total Liabilities and Fund Balances	\$ 305,120	\$ 1,100,364	\$ 136,785	\$ 10,375

City of Norton Shores

Combining Balance Sheet - Non-Major Governmental Funds

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	
<u>Local Improvement</u>	<u>Debt Service</u>	<u>Industrial Development</u>	<u>Cemetery Care</u>	<u>Total All Funds</u>
\$ 1,622,654	\$ 172,572	\$ 620,799	\$ 499,541	\$ 4,374,373
-	-	-	-	71,940
11,055	-	-	-	12,201
205,988	47,740	-	-	253,728
8,021	-	-	-	28,772
<u>\$ 1,847,718</u>	<u>\$ 220,312</u>	<u>\$ 620,799</u>	<u>\$ 499,541</u>	<u>\$ 4,741,014</u>
\$ -	\$ -	\$ -	\$ -	\$ 24,494
-	-	-	-	7,224
70,332	37,348	-	-	108,539
<u>70,332</u>	<u>37,348</u>	<u>-</u>	<u>-</u>	<u>140,257</u>
-	182,964	-	-	182,964
-	-	-	499,541	499,541
-	-	240,000	-	240,000
1,777,386	-	380,799	-	3,678,252
<u>1,777,386</u>	<u>182,964</u>	<u>620,799</u>	<u>499,541</u>	<u>4,600,757</u>
<u>\$ 1,847,718</u>	<u>\$ 220,312</u>	<u>\$ 620,799</u>	<u>\$ 499,541</u>	<u>\$ 4,741,014</u>

<i>Year ended June 30, 2008</i>	Special Revenue			
	Local Street	Solid Waste	Building	Community Development Program
Revenues				
Taxes	\$ -	\$ 601,274	\$ -	\$ -
Licenses and permits	-	-	439,776	-
Assessments levied	-	-	-	-
Sale of cemetery lots	-	-	-	-
Intergovernmental revenue				
Federal	-	-	-	57,324
State	439,029	-	-	-
Interest income	6,252	-	4,706	-
Miscellaneous revenue	891	235	50	-
Total Revenues	446,172	601,509	444,532	57,324
Expenditures				
Public safety	-	-	498,053	-
Highways and streets	388,711	-	-	-
Administration	138,599	63,897	56,576	-
Cemetery maintenance	-	-	-	-
Community development	-	-	-	56,590
Solid waste disposal	-	504,779	-	-
Capital outlay	-	-	-	-
Debt service				
Principal payments	-	-	-	20,000
Interest	-	-	-	4,784
Total Expenditures	527,310	568,676	554,629	81,374
Revenues over (under) expenditures	(81,138)	32,833	(110,097)	(24,050)
Other Financing Sources (Uses)				
Interfund transfers in	-	-	-	-
Interfund transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Revenues and other sources over (under) expenditures and other uses	(81,138)	32,833	(110,097)	(24,050)
Fund Balance, at beginning of year	375,454	1,063,165	235,996	27,904
Fund Balance, at end of year	\$ 294,316	\$ 1,095,998	\$ 125,899	\$ 3,854

City of Norton Shores

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds

	Debt Service	Capital Projects	Permanent	
Local Improvement	Debt Service	Industrial Development	Cemetery Care	Total All Funds
\$ -	\$ -	\$ -	\$ -	\$ 601,274
-	-	-	-	439,776
7,116	-	-	-	7,116
-	-	-	26,380	26,380
-	-	-	-	57,324
-	-	-	-	439,029
18,951	2,929	922	8,396	42,156
-	37,349	-	-	38,525
26,067	40,278	922	34,776	1,651,580
-	-	-	-	498,053
-	-	-	-	388,711
-	-	-	-	259,072
-	-	-	8,396	8,396
-	-	-	-	56,590
-	-	-	-	504,779
22,299	-	-	-	22,299
-	300,000	-	-	320,000
-	15,625	-	-	20,409
22,299	315,625	-	8,396	2,078,309
3,768	(275,347)	922	26,380	(426,729)
25,000	315,625	-	-	340,625
-	-	-	-	-
25,000	315,625	-	-	340,625
28,768	40,278	922	26,380	(86,104)
1,748,618	142,686	619,877	473,161	4,686,861
\$ 1,777,386	\$ 182,964	\$ 620,799	\$ 499,541	\$ 4,600,757

<i>Year ended June 30, 2008</i>	Local Street		
	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	-	-	-
State	487,223	439,029	(48,194)
Interest income	11,000	6,252	(4,748)
Miscellaneous revenue	-	891	891
Total Revenues	498,223	446,172	(52,051)
Expenditures			
Public safety	-	-	-
Highways and streets	388,500	388,711	211
Administration	137,202	138,599	1,397
Community development	-	-	-
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	-	-	-
Interest	-	-	-
Total Expenditures	525,702	527,310	1,608
Revenues over (under) expenditures	(27,479)	(81,138)	(53,659)
Other Financing Sources (Uses)			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	(27,479)	(81,138)	(53,659)
Fund Balance, at beginning of year	375,454	375,454	-
Fund Balance, at end of year	\$ 347,975	\$ 294,316	\$ (53,659)

City of Norton Shores

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Non-Major Governmental Funds

Solid Waste			Building		
Budget	Actual	Variance	Budget	Actual	Variance
\$ 597,754	\$ 601,274	\$ 3,520	\$ -	\$ -	\$ -
-	-	-	498,200	439,776	(58,424)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25,000	-	(25,000)	14,500	4,706	(9,794)
1,000	235	(765)	-	50	50
623,754	601,509	(22,245)	512,700	444,532	(68,168)
-	-	-	487,518	498,053	10,535
-	-	-	-	-	-
63,897	63,897	-	56,576	56,576	-
-	-	-	-	-	-
523,070	504,779	(18,291)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
586,967	568,676	(18,291)	544,094	554,629	10,535
36,787	32,833	(3,954)	(31,394)	(110,097)	(78,703)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
36,787	32,833	(3,954)	(31,394)	(110,097)	(78,703)
1,063,165	1,063,165	-	235,996	235,996	-
\$ 1,099,952	\$ 1,095,998	\$ (3,954)	\$ 204,602	\$ 125,899	\$ (78,703)

	Community Development Program		
<i>Year ended June 30, 2008</i>	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	131,588	57,324	(74,264)
State	-	-	-
Interest income	-	-	-
Miscellaneous revenue	-	-	-
Total Revenues	131,588	57,324	(74,264)
Expenditures			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Community development	103,588	56,590	(46,998)
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	23,000	20,000	(3,000)
Interest	5,000	4,784	(216)
Total Expenditures	131,588	81,374	(50,214)
Revenues over (under) expenditures	-	(24,050)	(24,050)
Other Financing Sources (Uses)			
Interfund transfers in	-	-	-
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	-	(24,050)	(24,050)
Fund Balance, at beginning of year	27,904	27,904	-
Fund Balance, at end of year	\$ 27,904	\$ 3,854	\$ (24,050)

City of Norton Shores

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Non-Major Governmental Funds

Local Improvement		
Budget	Actual	Variance
\$ -	\$ -	\$ -
-	-	-
125,000	7,116	(117,884)
-	-	-
-	-	-
-	-	-
21,500	18,951	(2,549)
-	-	-
146,500	26,067	(120,433)
-	-	-
-	-	-
-	-	-
-	-	-
-	22,299	22,299
-	-	-
-	-	-
-	22,299	22,299
146,500	3,768	(142,732)
25,000	25,000	-
-	-	-
25,000	25,000	-
171,500	28,768	(142,732)
1,748,618	1,748,618	-
\$ 1,920,118	\$ 1,777,386	\$ (142,732)

<i>Year ended June 30, 2008</i>	Debt Service		
	Budget	Actual	Variance
Revenues			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Assessments levied	-	-	-
Sale of cemetery lots	-	-	-
Intergovernmental revenue			
Federal	-	-	-
State	-	-	-
Interest income	5,000	2,929	(2,071)
Miscellaneous revenue	28,360	37,349	8,989
Total Revenues	33,360	40,278	6,918
Expenditures			
Public safety	-	-	-
Highways and streets	-	-	-
Administration	-	-	-
Cemetery maintenance	-	-	-
Community development	-	-	-
Solid waste disposal	-	-	-
Capital outlay	-	-	-
Debt service			
Principal payments	300,000	300,000	-
Interest	20,313	15,625	(4,688)
Total Expenditures	320,313	315,625	(4,688)
Revenues over (under) expenditures	(286,953)	(275,347)	11,606
Other Financing Sources (Uses)			
Interfund transfers in	328,075	315,625	(12,450)
Interfund transfers out	-	-	-
Total Other Financing Sources (Uses)	328,075	315,625	(12,450)
Revenues and other sources over (under) expenditures and other uses	41,122	40,278	(844)
Fund Balance, at beginning of year	142,686	142,686	-
Fund Balance, at end of year	\$ 183,808	\$ 182,964	\$ (844)

City of Norton Shores

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Non-Major Governmental Funds

Industrial Development			Cemetery Care		
Budget	Actual	Variance	Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	26,380	26,380
-	-	-	-	-	-
-	-	-	-	-	-
20,000	922	(19,078)	-	8,396	8,396
-	-	-	-	-	-
20,000	922	(19,078)	-	34,776	34,776
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	8,396	8,396
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	8,396	8,396
20,000	922	(19,078)	-	26,380	26,380
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
20,000	922	(19,078)	-	26,380	26,380
619,877	619,877	-	473,161	473,161	-
\$ 639,877	\$ 620,799	\$ (19,078)	\$ 473,161	\$ 499,541	\$ 26,380

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Balance Sheet

June 30, 2008

Assets

Current Assets

Cash and cash equivalents	\$ 1,124,249
Accounts receivable	120
Prepaid expenses	36,565

Total Current Assets	1,160,934
----------------------	-----------

Equipment, net of accumulated depreciation
of \$2,924,815

1,322,298

Total Assets	2,483,232
---------------------	------------------

Liabilities and Net Assets

Current Liabilities

Accounts payable	4,977
Accrued payroll	2,439
Compensated absences payable	5,957

Total Liabilities	13,373
-------------------	--------

Net Assets

Invested in capital assets, net of related debt	1,322,298
Reserved for replacement	1,147,561

Total Net Assets	\$ 2,469,859
-------------------------	---------------------

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Statement of Revenues, Expenses and Changes in Net Assets

<i>Year ended June 30, 2008</i>		.
Operating Revenues		
Billings to departments		\$ 1,161,386
Miscellaneous operating revenues		50,903
Total Operating Revenues		1,212,289
Total Operating Expenses		1,246,682
Operating loss		(34,393)
Non-Operating Revenues (Expenses)		
Interest income		13,790
Gain on sale of equipment		9,185
Total Non-Operating Revenues (Expenses)		22,975
Net Loss		(11,418)
Net Assets, at beginning of year		2,481,277
Net Assets, at end of year		\$ 2,469,859

City of Norton Shores

Internal Service Fund - Equipment Revolving Fund

Statement of Cash Flows

Year ended June 30, 2008

Cash Flows from Operating Activities

Operating loss	\$ (34,393)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	458,263
Changes in assets and liabilities	
Accounts receivable	380
Prepaid expenses	8,965
Accounts payable	812
Accrued liabilities	(130)

Total Cash Flows from Operating Activities	433,897
---	----------------

Cash Flows from Capital and Related Financing Activities

Proceeds from sale of fixed assets	9,185
Purchase of fixed assets	(537,293)

Total Cash Flows from Capital and Related Financing Activities	(528,108)
---	------------------

Cash Flows from Investing Activities

Interest income	13,790
-----------------	--------

Decrease in Cash	(80,421)
-------------------------	-----------------

Cash, at beginning of year	1,204,670
-----------------------------------	------------------

Cash, at end of year	\$ 1,124,249
-----------------------------	---------------------

City of Norton Shores

Agency Funds - Trust and Agency

Balance Sheet

June 30, 2008

Assets and Other Debits

Cash and cash equivalents	\$ 56,730
---------------------------	-----------

Liabilities

Liabilities

Performance deposits	\$ 17,525
----------------------	-----------

Due to other governments	39,205
--------------------------	--------

Total Liabilities	\$ 56,730
--------------------------	------------------

City of Norton Shores

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Trust and Agency - Taxes				
Assets				
Cash and cash equivalents	\$ -	\$ 35,161,660	\$ 35,161,660	\$ -
Liabilities				
Due to other governments	\$ -	\$ 35,161,660	\$ 35,161,660	\$ -
Trust and Agency – Other				
Assets				
Cash and cash equivalents	\$ 30,642	\$ 204,952	\$ 178,864	\$ 56,730
Liabilities				
Performance deposits	\$ 17,525	\$ -	\$ -	\$ 17,525
Due to other governments	13,117	204,952	178,864	39,205
	\$ 30,642	\$ 204,952	\$ 178,864	\$ 56,730

City of Norton Shores

Agency Funds

Combining Statement of Changes in Assets and Liabilities

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Total Trust and Agency				
Assets				
Cash and cash equivalents	\$ 30,642	\$ 35,366,612	\$ 35,340,524	\$ 56,730
Liabilities				
Performance deposits	\$ 17,525	\$ -	\$ -	\$ 17,525
Due to other governments	13,117	35,366,612	35,340,524	39,205
	\$ 30,642	\$ 35,366,612	\$ 35,340,524	\$ 56,730

Honorable Mayor and City Council
City of Norton Shores, Michigan
4814 Henry Street
Norton Shores, Michigan 49441

October 20, 2008

Dear Mayor Wiersma and Members of the City Council:

Professional standards require us to advise you of the following matters relating to our recently completed audit of the City of Norton Shores, Michigan (the "City") as of and for the year ended June 30, 2008. The matters discussed herein are those that we have noted as of October 20, 2008 and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 30, 2008, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the City's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Overview of Planned Scope and Timing of the Audit

A discussion was held with the Finance Director on July 21, 2008 regarding the planned scope and timing of the audit, the intention of which was to assist those charged with governance in understanding better the consequences of our audit work on your oversight responsibilities along with assisting us in understanding better the City and its environment. The focus of this discussion included how the risks of material misstatement, whether due to error or fraud, would be addressed and on factors, rather than specific thresholds or amounts, that would impact materiality used in our planning and execution of the audit.

Significant Findings from the Audit

Management Judgments and Accounting Estimates

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. We have made tests of management's estimates and deemed them to be appropriate.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

Misstatements

Professional standards require the auditor to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Additionally, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction.

During our audit, no material corrected misstatements or unrecorded misstatements were brought to the attention of management by us.

Discussion about the Quality of Significant Accounting Practices

In accordance with applicable auditing standards, a discussion was held with the Finance Director on September 11, 2008 regarding the quality of the City's significant accounting practices, which included the City's significant accounting practices, estimates, and financial statement disclosures.

Adoption of a Change in Accounting Principle

There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the City's financial statements.

Disagreements with Management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the City's financial statements or the audit report. No such disagreements arose during the course of our audit.

Consultation with Other Accountants

There may be circumstances where the City considers consulting with other accountants about accounting and auditing matters. We are not aware of any consultations about accounting or auditing matters between management and other accountants. We are also not aware of opinions obtained by management from other accountants on the application of generally accepted accounting principles.

Significant Issues Discussed with Management Prior to Our Retention

Prior to our being retained as auditor for the current fiscal year, there were no significant accounting or other issues of concern discussed with management.

Material Alternative Accounting Treatments Discussed with Management

During the past year, there were no discussions with management concerning material alternative accounting treatments.

Significant Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered during the course of the audit. All records and information requested by Pridnia LaPres, PLLC were freely available for inspection. Management and other personnel provided full cooperation.

Representations Requested from Management

Refer to the management representation letter that we have provided to those charged with governance.

Other Issues Arising from the Audit that We Consider Significant and Relevant to Those Charged with Governance

There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

Other Material Written Communications with Management

We have provided to those charged with governance copies of all material written communications that we prepared in connection with our annual audit.

Internal Control Matters

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Independence

We are not aware of any circumstances or relationships that would impair our independence.

Should you desire further information concerning these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of those charged with governance and management of the City of Norton Shores, Michigan and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

A handwritten signature in black ink that reads "Pridnia Latnes, LLC". The signature is written in a cursive, flowing style.